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## **Aid Effectiveness in Africa**

John Loxley and Harry A. Sackey

*Abstract:* This paper revisits the issue of aid effectiveness in Africa by examining the effect of aid on growth. Historically, Africa's development context appears to be an aid-dependent one, and with the New Partnership for Africa's Development (NEPAD) calling for additional capital flows to improve growth levels on the continent, and the attainment of the UN's Millennium Development Goals partly conditioned on aid inflows, there is a new urgency to evaluate the effectiveness of aid. Using a sample comprising 40 member countries of the African Union, and estimating fixed-effects growth models, we find a positive and statistically significant effect of aid on growth. Aid increases investment, which is a major transmission mechanism in the aid-growth relationship. An extension of our analysis to examine sources of growth finance shows aid, workers' remittances, debt-service resources and domestic savings are important sources of development finance. Thus, for now, aid matters for the continent's growth. However, given the apparent donor aid fatigue and the debt servicing implications of concessional loans, the paper supports the need to strategize to reduce future dependence on aid.

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## **Resource-led Development: An Illustrative Example from Nigeria**

Fidelis O. Ogwumike and Eric K. Ogunleye

*Abstract:* Several strategies are open to an economy in its attempt to attain sustainable economic development, depending on its historical background and resource endowment. One such strategy is the resource-led strategy. Nigeria is very rich in crude oil and has reaped billions of petrodollars. However, the country faces the problem of successfully translating this huge oil wealth into sustainable development. This paper employs the vector error correction technique in examining the long-run impact of the huge oil wealth accruing to Nigeria on its economic development. Basic indicators such as growth, private consumption, infrastructure (electricity), agriculture and manufacturing output growth rates are examined. The empirical results suggest a significant positive long-run impact of per capita oil revenue on per capita household consumption and electricity generation while a negative relationship is established for GDP, agriculture and manufacturing. Even for those with a negative relationship at current period, there exist positive relationships at subsequent lags. Thus, oil revenue, if properly managed and invested, could be effectively used to induce oil-led development for Nigeria provided that the initial inhibitions of corruption, lack of transparency, accountability and fairness in its use and distribution are removed.

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# **Asymétrie d'information, Litiges et Bien-être social dans le cadre d'un contrat de Partenariat Public/Privé: Le cas de la construction d'infrastructures d'intérêt public en Afrique**

Mathurin Founanou

*Résumé:* Dans cet article, nous analysons la structure des contrats optimaux de partenariat Public/Privé concernant la construction d'infrastructures d'intérêt public. Nous considérons une forme générale de contrat incitatif comportant un paiement ex-post qui dépend du coût du projet observé et d'un prix fixe. Lorsque l'opérateur du projet peut influencer le résultat ex-post par une action non observable par le partenaire public, il existe un risque de litiges concernant le coût observé ex-post. On montre que, le contrat optimal réalise un arbitrage entre deux effets: aléa moral et partage du risque. Les mécanismes réalisables en présence ou en absence de litiges sont caractérisés. En cas de litige, le contrat à prix fixe peut être inférieur à un contrat à remboursement de coût. Ce résultat entre en contradiction avec le résultat bien connu selon lequel, en incitant l'agent à exercer un effort de réduction du coût, un contrat à prix fixe domine le contrat à remboursement du coût.

*Abstract:* In this article, we analyze the optimal structure of public/private partnership agreements, in cases where these contracts concern the construction of economic infrastructure. We consider a form of incentive contract stipulating rules of payment based on the ex post value, which are calculated based on the observed costs of the project and a fixed price. In cases where a private contractor can influence the final cost of a project by an action unobservable by the principal, there is a risk that a dispute will arise concerning the project's observable cost. We show that, the optimal contract establishes a balance between moral hazard and risk sharing. We derive the feasible mechanisms, either in the presence or absence of litigation. In litigation contest, a fixed-price contract may be inferior to a cost-plus contract. This result stands in contrast to the well-established finding that, in providing incentive for the agent to engage in cost-reducing effort, a fixed-price contract dominates a cost-plus contract.

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## **China and India's Growth Surge: Is it a curse or blessing for Africa? The Case of Manufactured Exports**

Alemayehu Geda and Atnafu G. Meskel

*Abstract.* In this paper, we address two major questions. First, the question of whether China and India are displacing the African manufacturing export from the third market. Second, whether there is an evidence of shifting comparative advantage from China

and India to Africa. We employed a gravity model with a panel data using 13 African exporters of clothing and accessories for the period 1995–2005 to answer the first question. To answer the second question, we used a flying-geese model and estimated Spearman's rank correlation coefficients on indices of the revealed comparative advantage vectors of the African exporters and China and India for the same period. Both the gravity and flying-geese models predicted similar outcomes. We found that there is strong evidence that China has been displacing African manufactures from the third market while India has been complementing it in the early years of the study. However, the overall third market impact of China and India has been that of complementarity in the later years of the study period. This result is found to vary across countries. Furthermore, we found evidence of shifting comparative advantage from China and India to Africa as the flying-geese theory predicts, South Africa being the leading goose followed by Kenya. The major implication of the study is that, in the world where China and India are reshaping the global economic order dynamically, the outcomes of the traditionally received wisdom of trade liberalization and industrialization policies through export promotion may be uncertain and requires strategic thinking.

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## **The Revenue–Expenditure Nexus: The Experience of 13 African Countries**

Yemane Wolde-Rufael

*Abstract.* The aim of this paper is to investigate the causal relationship between government revenue and government expenditure for 13 African countries within a multivariate framework using a modified version of the Granger causality test due to Toda and Yamamoto (1995). The empirical evidence suggests that there was a bi-directional causality running between expenditure and revenue for Mauritius, Swaziland and Zimbabwe; no causality in any direction for Botswana, Burundi and Rwanda; unidirectional causality running from revenue to expenditure for Ethiopia, Ghana, Kenya, Nigeria, Mali and Zambia; and a uni-directional causality running from expenditure to revenue for Burkina Faso only.

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## **Decomposing Poverty Changes in Zambia: Growth, Inequality and Population Dynamics**

Shula Mulenga and Bjorn Van Campenhout

*Abstract.* During the 1990s, the Zambian economy underwent major structural adjustments. This paper presents an application of a recently proposed poverty decomposition that attributes changes in poverty to income growth, changes in inequality and population dynamics. Our results confirm earlier findings that the existence of a severe urban bias in the economy effectively shielded large parts of the rural population from the economic slump caused by the structural adjustments. In addition, we find that the exodus from urban centres that followed the adjustments contributed significantly to the increase in national poverty. The latter finding highlights the importance of considering population movements when studying poverty, especially in situations where policy changes affect migrant labour, as was the case for the Zambian copper industry.

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## **State-owned Enterprises: NWSC's Turnaround in Uganda**

Silver Mugisha and Sanford V. Berg

*Abstract.* Oversight agencies in the water sector emphasize performance monitoring based on outputs, such as customers served, volume delivered, and service quality.

However, bureaucratic tendencies can curtail operational innovation and creativity. In situations where managers lack full operating knowledge and capacities, proactive and consultative monitoring and regulation can yield benefits. This study reviews the results of Uganda's National Water and Sewerage Corporation's (NWSC) approach to performance monitoring (and 'self-regulation'). The purpose of this study is to outline corrective actions undertaken by the NWSC Management and Staff to turn around performance, the sequencing of those steps, and the outcomes from this reform program. The NWSC focuses on promoting improvements in technical processes and input selection. Improvements in service quality and network expansion resulted from aligning performance improvement initiatives with the organization's financial performance and team development. The program's success required managing organizational rigidities and moving towards full cost-recovery. In particular, organizational incentives and information flows encouraged managers to reduce rules and procedures that hindered strong performance. African proverbs are interspersed throughout the article to underscore key themes and lessons for those designing, implementing, and evaluating infrastructure sector reform initiatives.

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## **S-curve Dynamics of Trade in Africa**

Mohsen Bahmani-Oskooee, Abera Gelan and Artatrana Ratha

*Abstract:* Two concepts summarize the short-run relationship between the trade balance and the terms of trade or the real exchange rate, the old concept known as the J-curve and a new concept that comes under the heading of the S-curve. The S-curve introduced in 1994 basically claims that while the cross-correlation between past value of the trade balance and current value of the exchange rate is negative, the correlation is positive between the future value of trade balance and the current value of the exchange rate. In this paper we investigated the experiences of 20 African nations and found support for the S-curve in eight of them.

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